



# **An Open Door and a Leg Up: Increasing Service-Disabled Veteran-Owned Small Business (SDVOSB) Participation in Defense Contracting Through Simplified Acquisitions**

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# Research Problem Identified

## Research Problem:

Paradox between Real Goal Achievement Success and Predictions of Program Malfunction

## Malfunction factors from academic literature:

- Veteran Disillusionment
- Veteran and Buyer Confusion
- Entrenchment of Already Successful Firms



# Research Questions

## Research Questions:

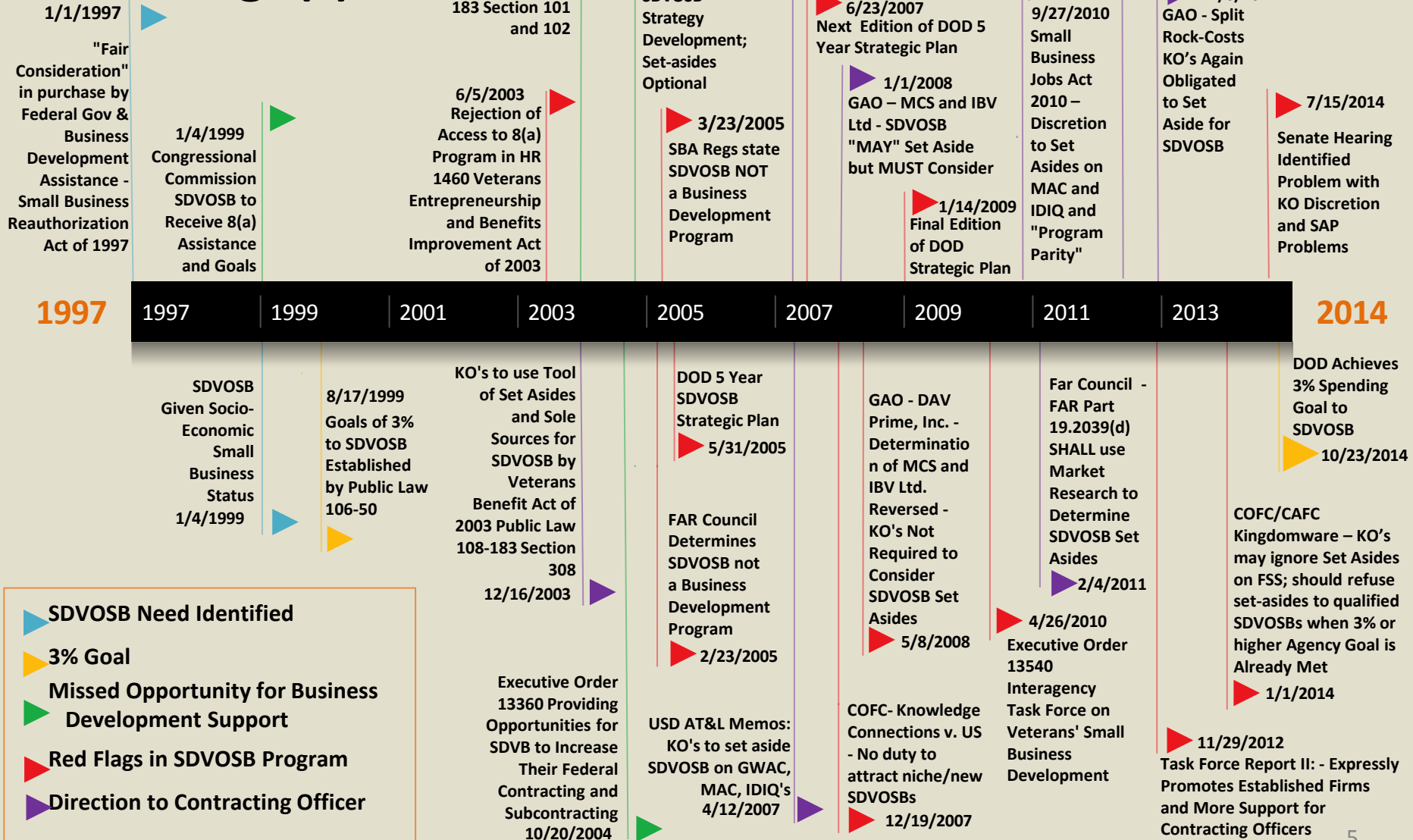
- 1. Can the SDVOSB Program be understood in terms of the generally accepted contract management performance model (inputs, process, outputs, and outcome)?**
- 2. Is individual-level Contracting Officer discretion the right mechanism to support SDVOSB participation in Defense contracting?**
- 3. Can Simplified Acquisitions positively influence Program outcomes?**



# Methodology

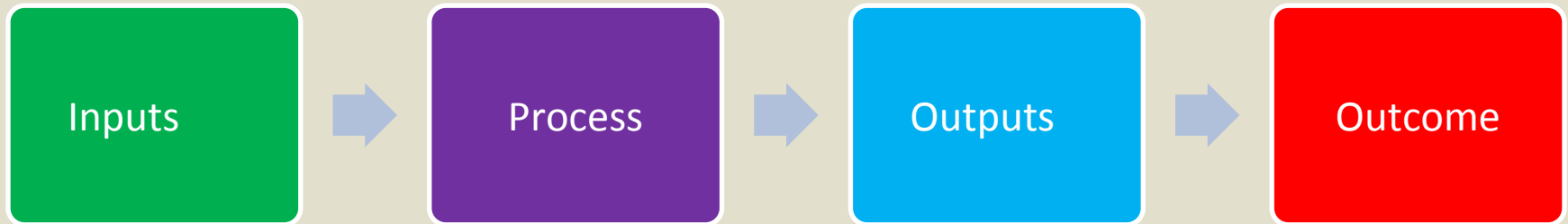
- **Review of Prior Academic Assessments**
- **Theoretical Foundation of Effective Program Design**
  - applying the Cohen & Eimicke Contract Management Performance Model to Socio-Economic Contracting
- **Understanding the performance taxonomy of SDVOSB Program designs**
  - Laws, regulations, precedence, and policies
- **FPDS/SAM/VA data analysis for validation of SDVOSB**
  - Current SDVOSB Program performance design taxonomy; examination of Contracting Officer discretion trends; and examination of opportunities for use of Simplified Acquisitions
- **Discussion, Conclusions, Recommendations**

# SDVOSB Program Taxonomy Design(s)

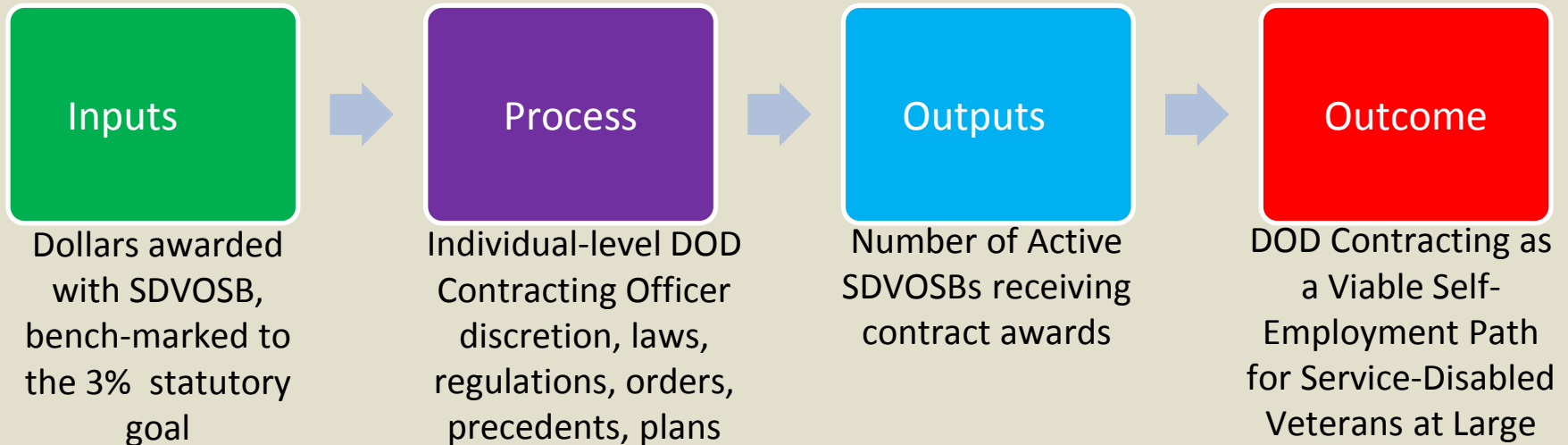


# Contract Management Performance Model

Cohen & Eimicke, *The Responsible Contract Manager* (2008)



## Applied to the SDVOSB Program



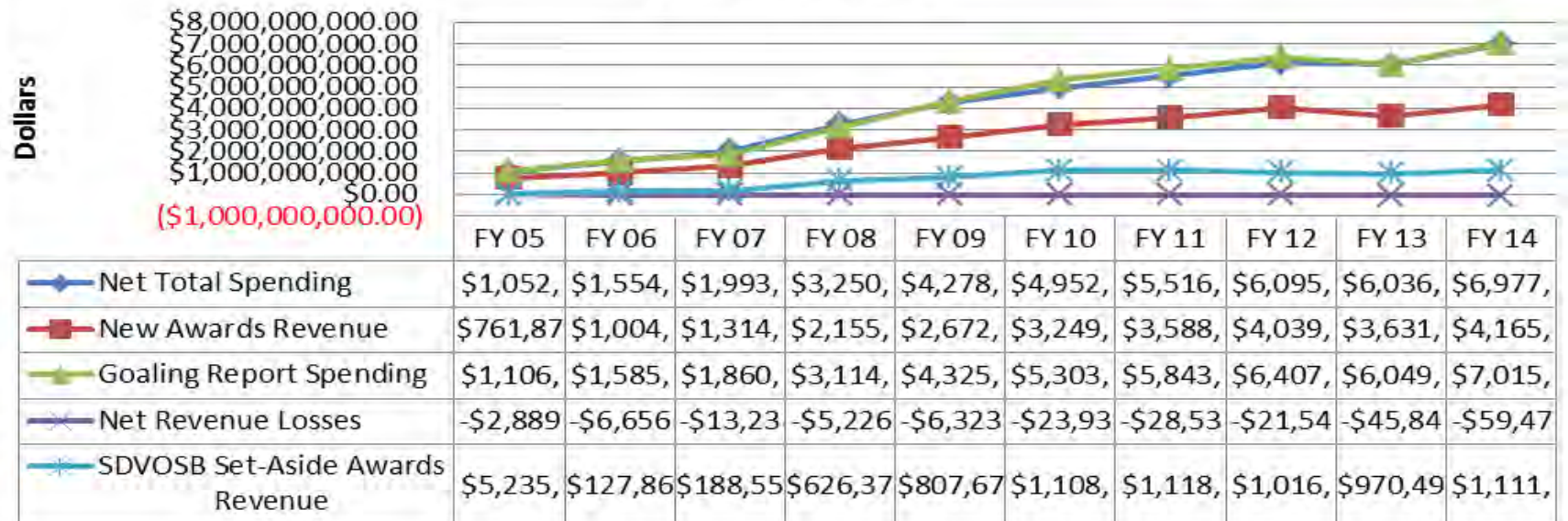




# SDVOSB Program Taxonomy: Inputs

## Overall Trends on DOD Spending with SDVOSBs

### DOD SDVOSB Spending through SDVOSB Program and Non-Program Contracting



- Input is the spending commitment from DOD towards the 3% goal SDVOSBs.
- New award revenue has shown little growth from FY09 till present
- Spending on accretive modifications (options and change orders) is growing
- SDVOSB Program (set-aside) awards spending is stagnant since FY10

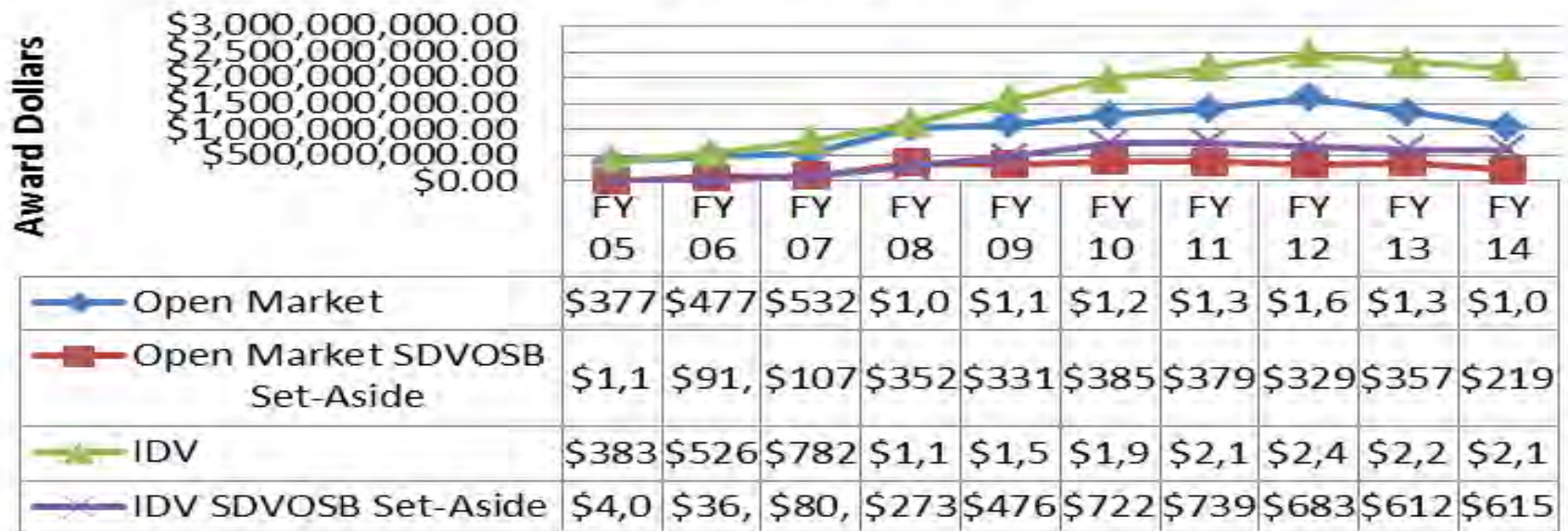




# SDVOSB Program Taxonomy: Inputs

## Overall Trends on DOD Spending with SDVOSBs

### SDVOSB Spending Realignment Among Contracting Mechanisms



- The predominant spending now goes towards stimulating SDVOSBs holding IDV's (green), followed by Open Market (blue)
- The minority of the spend is under SDVOSB's set-asides (purple) on IDV's
- In the Open Market, SDVOSB set-asides (red) spending is shown to be on the decline since FY10



# SDVOSB Program Taxonomy: Process Contracting Officers' Discretion

## Federal Acquisition Regulations (FAR) Part 19

### 19.203 -- Relationship Among Small Business Programs.

(a) There is **no order** of precedence among the 8(a) Program (subpart [19.8](#)), HUBZone Program (subpart [19.13](#)), Service-Disabled Veteran-Owned Small Business (SDVOSB) Procurement Program (subpart [19.14](#)), or the Women-Owned Small Business (WOSB) Program (subpart [19.15](#)).

(b) **At or below the simplified acquisition threshold...** (1) of the simplified acquisition threshold definition at 2.101), the requirement at [19.502-2](#)(a) to **exclusively reserve acquisitions for small business concerns does not preclude the contracting officer** from awarding a contract to a small business under the 8(a) Program, HUBZone Program, SDVOSB Program, or WOSB Program.

(c) **Above the simplified acquisition threshold... the contracting officer shall first consider an acquisition for the small business socioeconomic contracting programs (i.e., 8(a), HUBZone, SDVOSB, or WOSB programs) before considering a small business set-aside** (see [19.502-2](#)(b)). However, if a **requirement has been accepted by the SBA under the 8(a) Program, it must remain in the 8(a) Program** unless SBA agrees to its release in accordance with 13 CFR parts 124, 125 and 126.



# SDVOSB Program Taxonomy: Process Contracting Officers' Discretion per 15 U.S.C. §657f (2003)

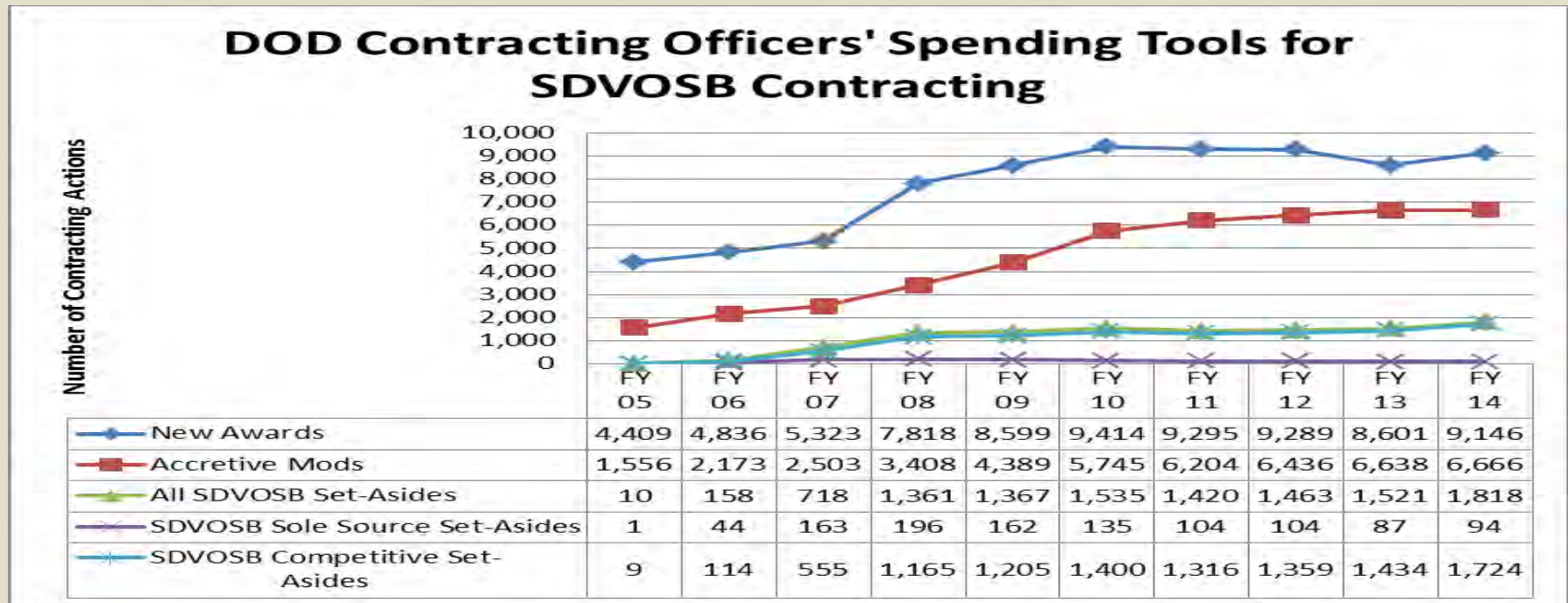
## 15 U.S.C. §657f (2003)

The original 2003 set-aside authority (with thresholds since adjusted for inflation to \$6 million for manufacturing NAICS buys and \$3.5 million for other buys) provided:

(a) **Sole source contracts.** In accordance with this section, a contracting officer may award a sole source contract to any small business concern owned and controlled by service-disabled veterans if— (1) such concern is determined to be a **responsible contractor** with respect to performance of such contract opportunity and the **contracting officer does not have a reasonable expectation that 2 or more small business concerns owned and controlled by service-disabled veterans will submit offers** for the contracting opportunity; (2) the anticipated award price of the contract (including options) will not exceed— (A) \$~~65~~000,000, in the case of a contract opportunity assigned a standard industrial classification code for manufacturing; or (B) \$3,~~50~~000,000, in the case of any other contract opportunity; and (3) in the **estimation of the contracting officer**, the contract award can be **made at a fair and reasonable price**. (b) **Restricted competition.** In accordance with this section, a contracting officer may award contracts on the basis of competition restricted to small business concerns owned and controlled by service-disabled veterans if the contracting officer has a **reasonable expectation that not less than 2 small business concerns owned and controlled by service-disabled veterans** will submit offers and that the award can be made at a fair market price.



# SDVOSB Program Taxonomy: Process Trends on Contracting Officers' Discretion



- Top two lines (blue and red) represent the strategic direction of SDVOSB awards.
- Accretive modifications (red) are shown to be increasing.
- Bottom two lines (purple and teal) show that the process of sole source and set-asides of the SDVOSB Program result in awards that are low and flat
- The above shows that Contracting Officers disfavor the discretion to set aside exclusively for SDVOSBs





# Flat and Diminishing Spending Trends on SDVOSB Set-Aside Awards

ENTRY INTO THE PROGRAM: NEW SDVOSB SET-ASIDE AWARDS

FISCAL YEAR	SDVOSB Sole Source Awardees	SDVOSB Sole Source Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spend	SDVOSB Competitive Set-Aside Awardees	SDVOSB Competitive Set-Aside Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spending	All SDVOSB Set-Aside Awardees	All SDVOSB Set-Aside Spending	Share of New SDVOSB Awards Spending	Share of Total SDVOSB Spending
FY14	79	\$43,091,617.15	1.03%	0.62%	707	\$1,068,019,124.40	25.64%	15.31%	761	\$1,111,110,741.55	26.68%	15.92%
FY13	81	\$30,870,226.70	0.85%	0.51%	638	\$939,623,966.50	25.87%	15.57%	690	\$970,494,193.20	26.72%	16.08%
FY12	89	\$33,188,898.78	0.82%	0.54%	700	\$983,481,441.21	24.35%	16.13%	766	\$1,016,670,339.99	25.17%	16.68%
FY11	88	\$27,370,260.15	0.76%	0.50%	728	\$1,091,437,028.02	30.41%	19.79%	790	\$1,118,807,288.17	31.18%	20.28%
FY10	115	\$29,563,592.75	0.91%	0.60%	763	\$1,078,915,571.31	33.21%	21.78%	845	\$1,108,479,164.06	34.12%	22.38%
FY09	138	\$54,970,337.86	2.06%	1.28%	712	\$752,706,170.12	28.16%	17.59%	810	\$807,676,507.98	30.22%	18.88%
FY08	158	\$62,002,225.78	2.88%	1.91%	666	\$564,373,249.43	26.19%	17.36%	774	\$626,375,475.21	29.06%	19.27%
FY07	126	\$30,797,418.88	2.34%	1.54%	404	\$157,753,931.31	12.00%	7.91%	493	\$188,551,350.19	14.35%	9.46%
FY06	44	\$16,718,813.00	1.66%	1.08%	123	\$111,146,009.10	11.06%	7.15%	158	\$127,864,822.10	12.72%	8.23%
FY05	1	\$11,143.00	0.00%	0.00%	9	\$5,224,519.21	0.69%	0.50%	10	\$5,235,662.21	0.69%	0.50%

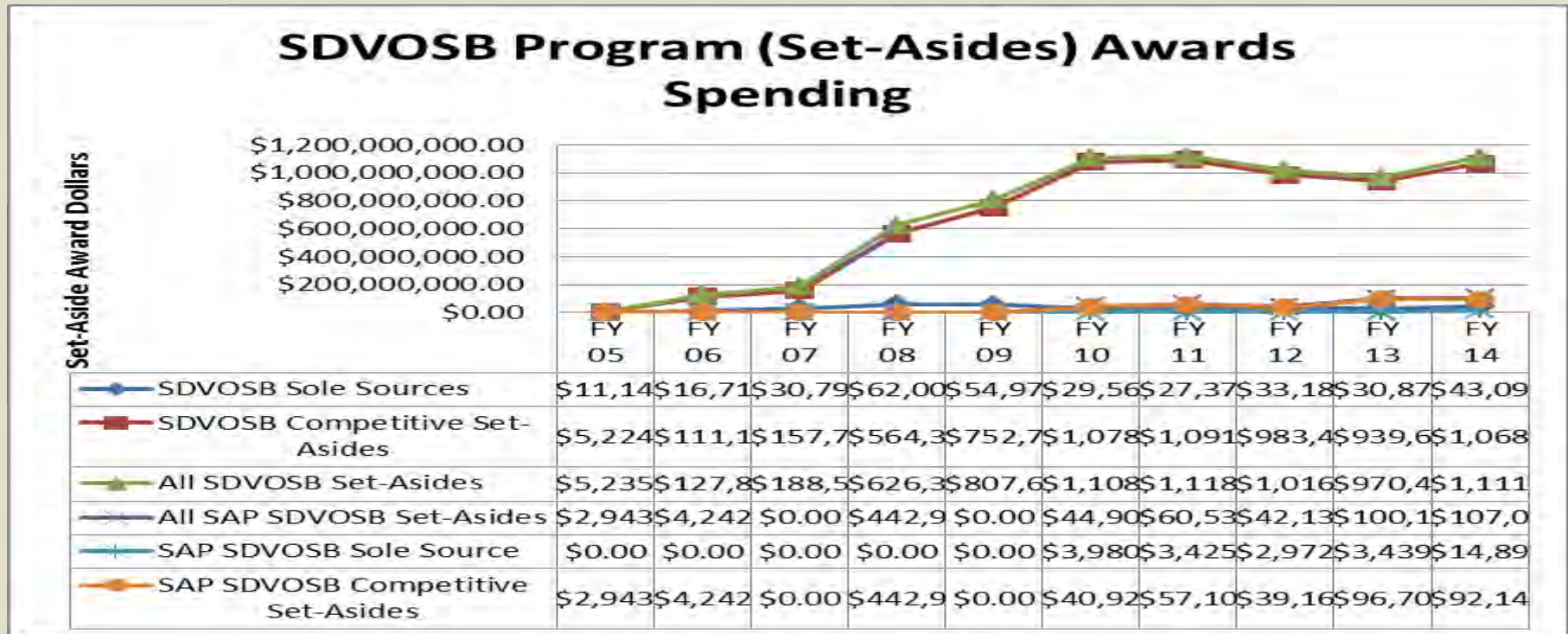
The set aside program is attracting less and less SDVOSB firms to DOD contracting



# SDVOSB Program Taxonomy: Process

## Contracting Officers' Use of Discretionary Authority

### All Set-Aside Awards Revenue



SDVOSB Set-Aside (red and green) program revenue is shown to be stagnant since FY 10

SDVOSB Sole source (teal) awards revenue is minimal

Simplified Acquisition Procedures (Threshold) set asides revenue is increasing slowly





# Alternative Use of Contracting Officers' Discretion

Awards Under the Simplified Acquisition Threshold (SAT) of \$150,000.00 by utilization of Simplified Acquisition Procedures (SAP) FAR 13

ENTRY OF SDVOSB FIRMS INTO DEFENSE MARKET: IMPACT OF THE SIMPLIFIED ACQUISITION PROCEDURES (SAP) TOOL						
Fiscal Year	SAP SDVOSB Awardees	Share of All New Awardees	SAP Awards Spending with SDVOSBs	Share of New SDVOSB Awards	Share of Total SDVOSB Spending	
FY 14	1346	54.80%	\$468,344,284.31	12.78%	7.63%	
FY 13	1331	59.02%	\$416,013,773.62	11.45%	6.89%	
FY 12	1483	56.34%	\$284,690,662.76	7.05%	4.67%	
FY 11	1464	53.47%	\$288,016,823.61	5.19%	5.22%	
FY 10	1002	36.40%	\$198,879,487.81	6.12%	4.02%	
FY 09	6	0.24%	\$995,452.71	0.04%	0.02%	
FY 08	10	0.44%	\$1,347,737.60	0.06%	0.04%	
FY 07	11	0.65%	\$2,835,360.21	0.22%	0.14%	
FY 06	857	53.97%	\$122,053,714.76	12.15%	7.85%	
FY 05	1039	72.05%	\$169,117,905.21	22.20%	16.07%	

- SAP shows growth in new awards spending dollars and share
- More awards going to SDVOSB's at lower dollars under the threshold of \$150,000.00
- New SDVOSB awardees/suppliers like SAP – significant growth shown
- Notable positive collateral effect was growth in the FY13 DOD Sequestration Year



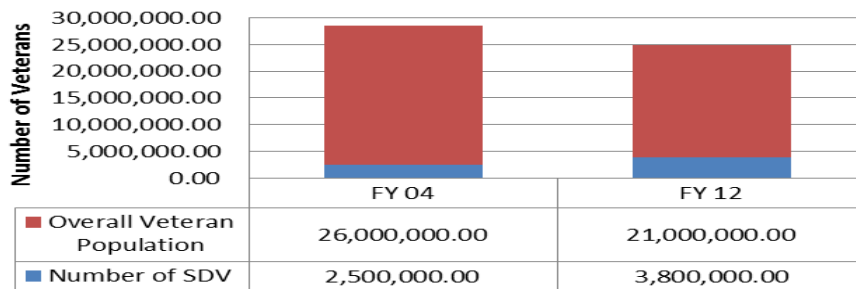


# SDVOSB Program Taxonomy: Outputs

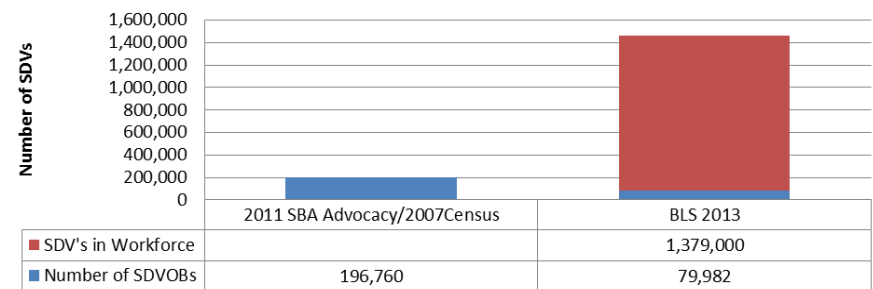
## Context for SDVOSB Program Utilization

*Is DOD Contracting a preferred self-employment path for Service-Disabled Veterans?*

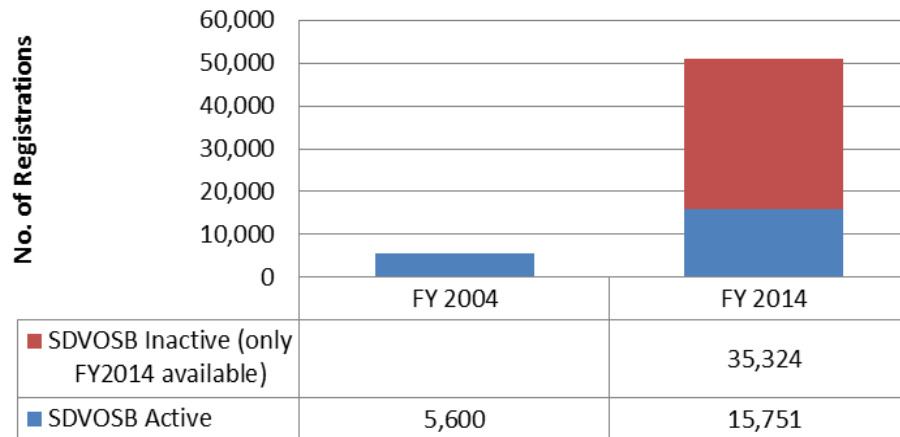
**VA Data on SDV Population Growth**



**Data on SDVs in Workforce, Including Self-Employment**



**SDVOSB Seekers of Federal Contracts:  
SAM.gov/CCR.gov Registrations**

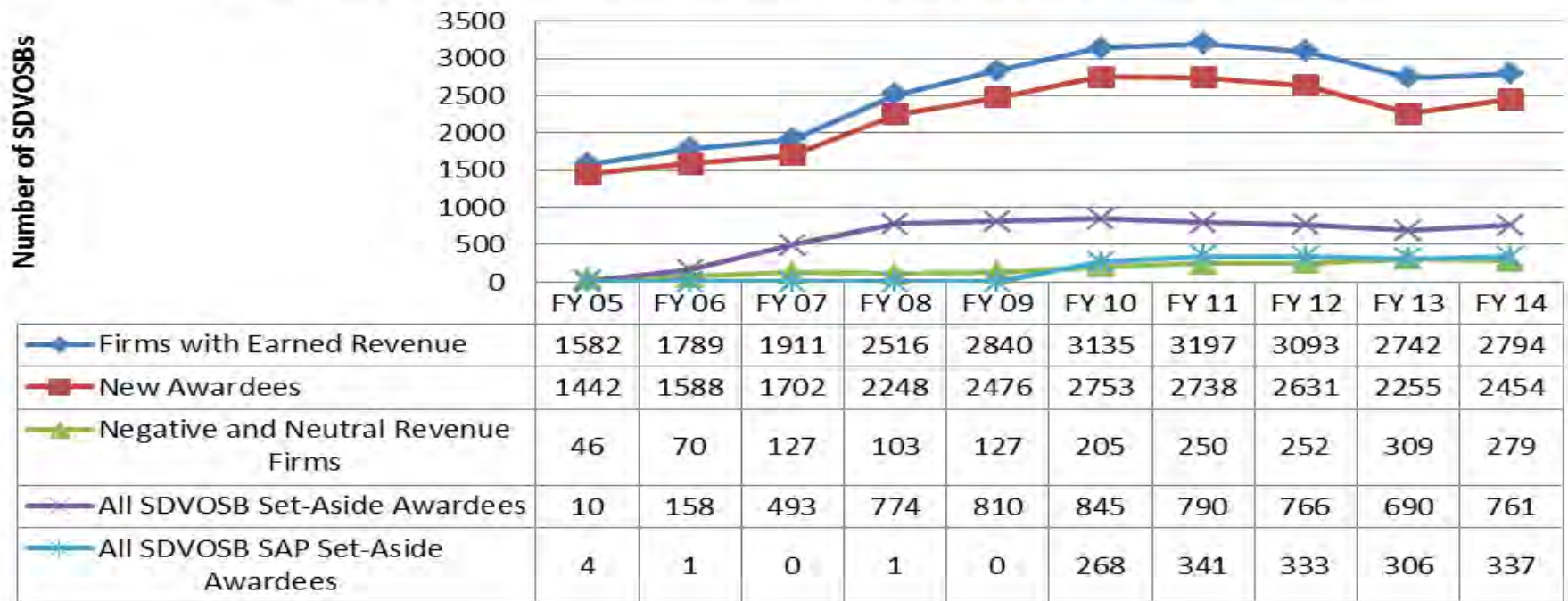




# SDVOSB Program Taxonomy: Outputs

## Strategic Direction Trends of SDVOSB Participation in DOD Contracting

### SDVOSB Participation Trends in DOD Contracting



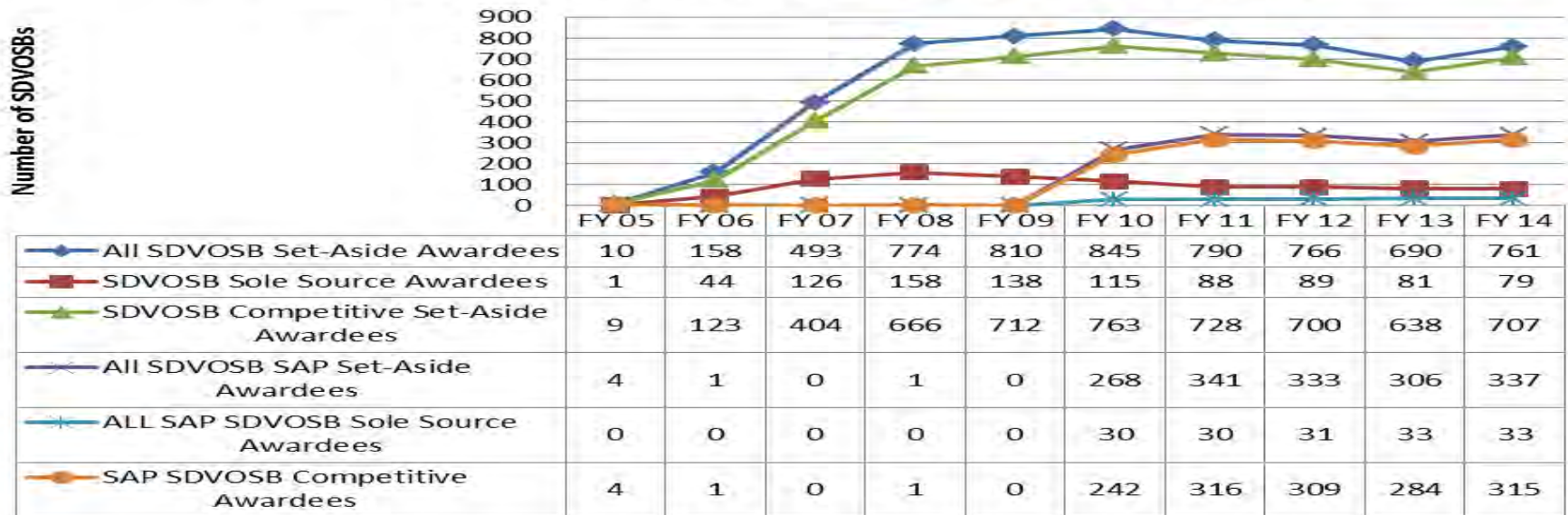
- Strategic future: SDVOSB Program recently on a course to start running out of suppliers.
- Number of SDVOSBs brought into DOD contracting through set-asides is decreasing
- SAP set asides shows potential as a positive growth mechanism for SDVOSB participation



# SDVOSB Program Taxonomy: Outputs

## Trends on all SDVOSB Awardees in DOD Contract Awards

**SDVOSB Program Participation:  
Trends in Contracting Officer Discretion**



- SDVOSB set-aside (blue) awardees show little growth and a decline since FY10
- SDVOSB sole-source (red) awardees has been on a continuous decline since FY09
- SAP set-asides (purple)/sole source (teal)/and competitive (orange) SDVOSB awardees have increased consistently since FY09
- Competitive SAP procurements are bringing more and more SDVOSB to DOD Contracting

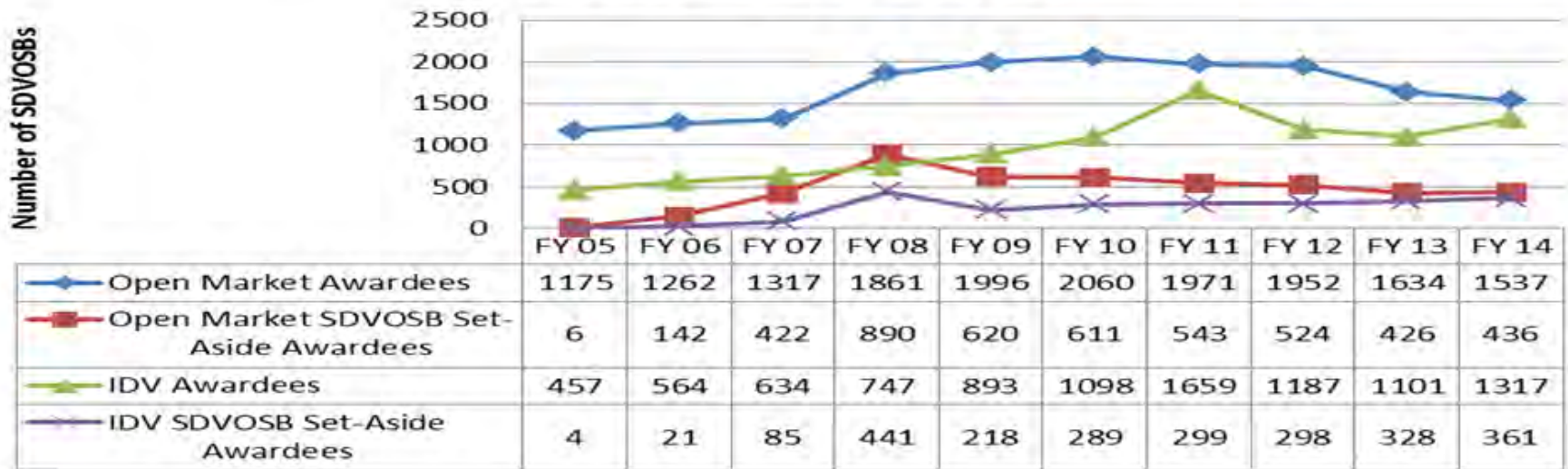




# SDVOSB Program Taxonomy: Outputs

## Trends on SDVOSBs IDV Participation in DOD Contract Awards

**SDVOSB Program and Non-Program Participation in DOD Contracting: Open Market v. IDV Orders**



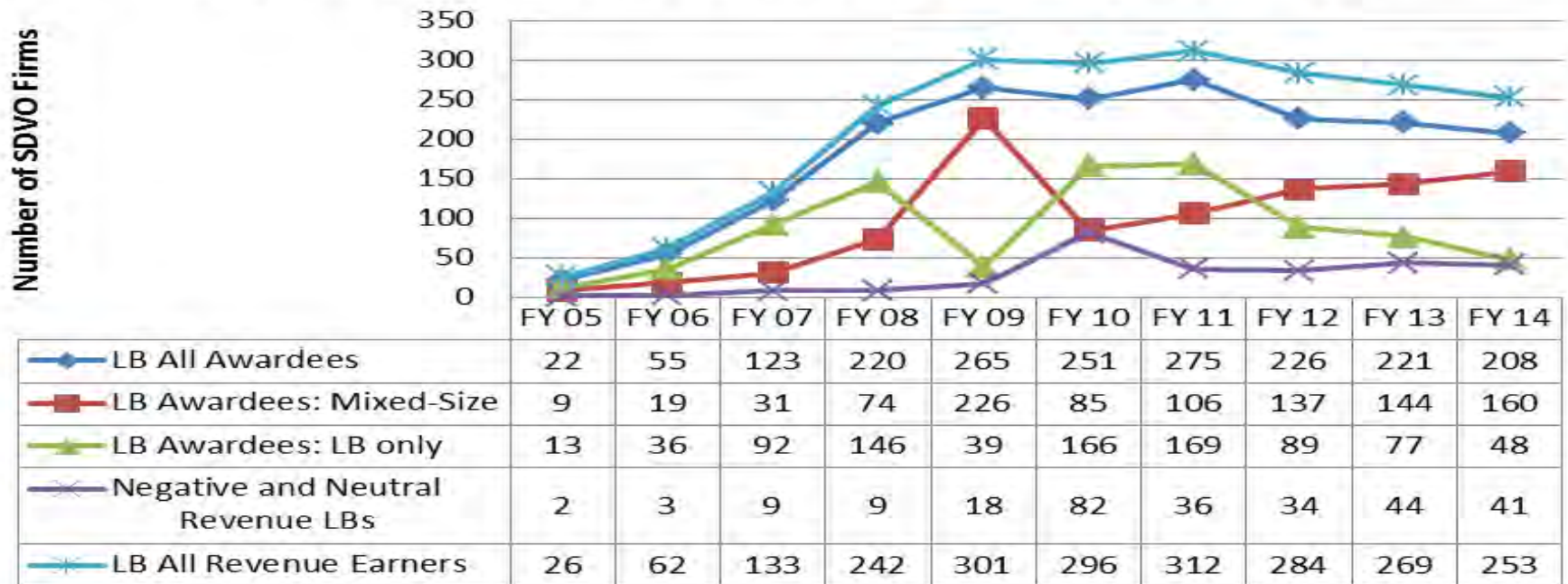
- Awardee mix is changing from Open Market in favor of established firms as IDV Participants
- SDVOSB Program is losing its role in the Open Market: Open Market awardees (blue) and Open Market set-aside awardees (red) had a stagnant/declining trend since FY09
- IDV SDVOSB awardees (green) show growth consistently until FY12/FY13 and a slow rise for FY 14
- IDV SDVOSB set-aside awardees have seen growth from FY 05 to FY 09 and have seen little to no growth from FY10 to FY14



# SDVOSB Program Taxonomy: Outcome of Current Design

## Graduations from Small to Large Business

### Fate of SDVOLBs: SDVOSBs Which Totally or Partially Outgrew Small Business Size Caps

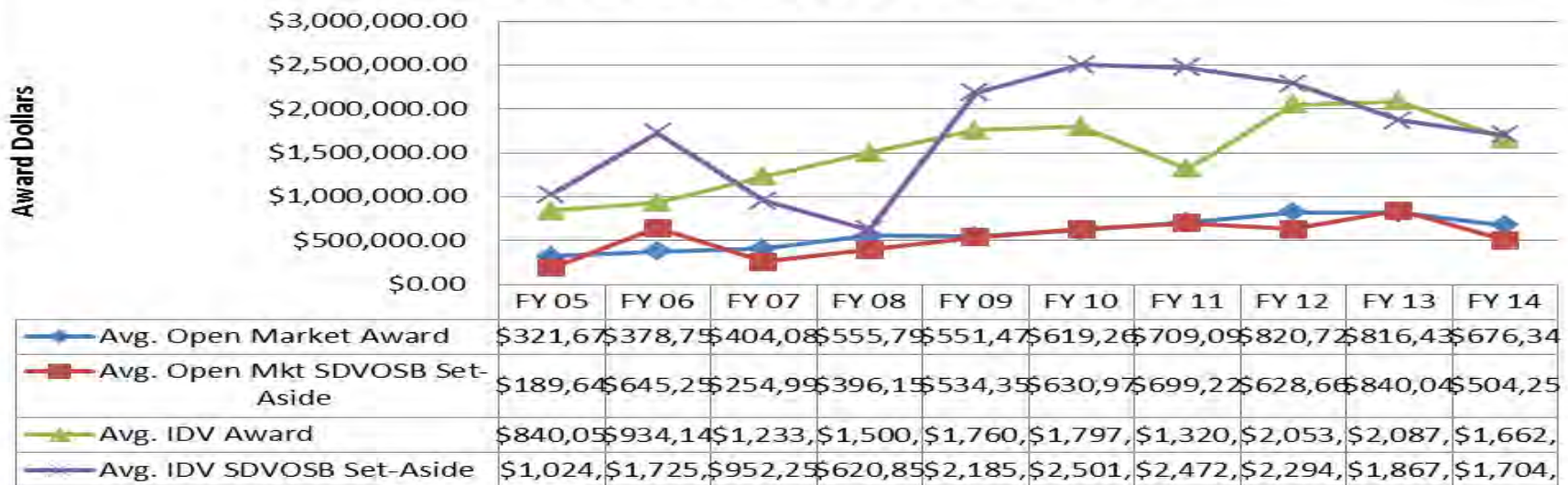


- Number of SDVOSB firms turned large is very low compared to the entire population.
- Large Disabled Veteran-owned firms are not surviving outside of SDVOSB status.
- Mixed size (red) with both small and large NAICS business sizes show some growth



# SDVOSB Program Taxonomy: Outcome of Current Design Earnings Expectations

**Capability Growth Expectations:  
Average Earnings by Contracting Mechanism  
in and out of the SDVOSB Program**



- Open Market (blue) shows little favor to SDVOSB set asides in earning capacity
- IDV earning capacity favors established SDVOSBs through set-asides (purple) over average IDV awards (green)
- Both Open Market awards (blue) and Open Market SDVOSB set-asides (red) show little potential and stagnation





# Answers to Research Questions

1. Can the SDVOSB Program be understood in terms of the generally accepted contract management performance model (inputs, process, outputs, and outcome)?

**YES, gives the answer to the paradox of goal achievement, disillusionment, and malfunction concerns; provides insight into Program trends**

2. Is individual-level Contracting Officer discretion the right mechanism to support SDVOSB participation in Defense contracting?

**NO, without business development it is underutilized due to confusing market research standards, difficult balance in determinations of contractor responsibility, and transactional ease of other methods, such as the IDV orders as well as accretive modifications. Contracting Officers are reticent to exercise their discretion to make sole source and competitive set-sides to SDVOSBs.**

3. Can Simplified Acquisitions positively influence Program outcomes?

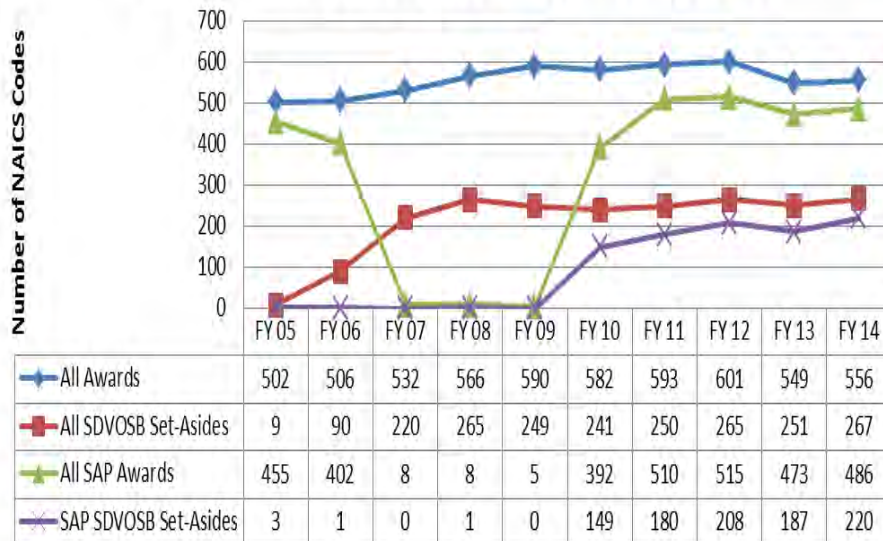
**YES, strategic use if requirements under SAT (150K). Utilization of SAP is currently working as a method to increase SDVOSB participation and stimulate new awardees to gain past performance and experience.**



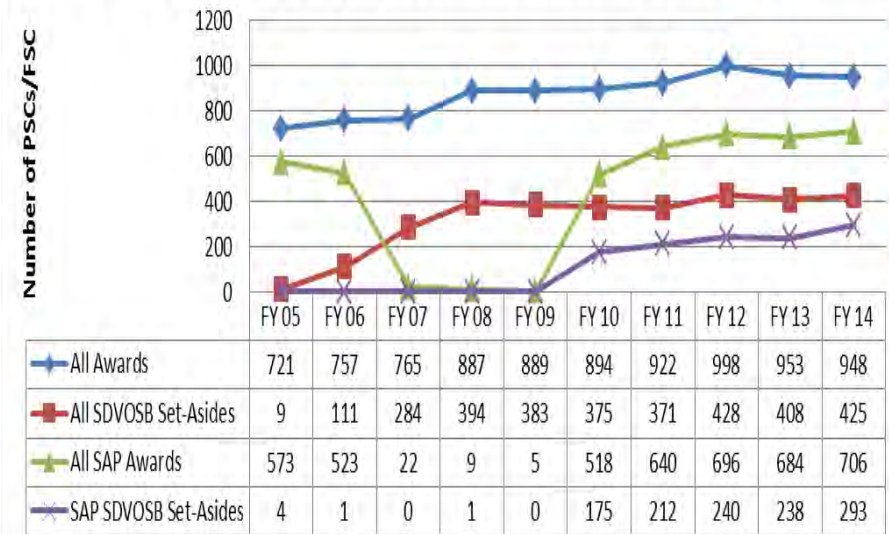


# Recommendations: Strategic Targeting of NAICS and PSC/FSC Coverage Gaps Through SDVOSB Set-Asides and SAP

**NAICS Trends: Opportunities for Industrial Targeting through the SDVOSB Program (including SAP)**



**PSC/FSC Trends: Opportunities for Matching SDVOSBs to DOD Product and Service Requirements**



- Every contract has NAICS and PSC/FSC codes. NAICS codes show industries sought; PSCs/FSCs describe actual DOD needs.
- Out of 700 NAICS codes and 1200 PSC/FSC codes, the gaps between top two (blue and green) and bottom two lines (red and purple) show industries and requirements where no low-dollar Simplified contracts are being awarded. So, new or niche SDVOSBs can't gain experience and past performance needed for IDVs.
- To grow SDVOSB participation, gaps must be filled with be set-asides exclusively for SDVOSB, particularly in SAP.
- SAP shown itself to be an open door for a pathway into Government contracting for SDVOSBs.



# Questions and Comments

***“We need to look at this from the perspective of the soldier, not the perspective of the government.”***

- Secretary of Defense Robert M. Gates on the wounded warrior transition system  
in *Duty: Memoirs of a Secretary at War*